Georgeson Report

SSGA'S 2018 VOTING POLICY UPDATES SUMMARY

March 22, 2018

Background: Earlier in March, State Street Global Advisors ("SSGA") updated its global proxy voting guidelines. The most significant policy updates relate to: executive compensation; compliance with local market governance codes and board diversity. These changes complement a letter that SSGA sent in February to members of the boards of directors of companies in the S&P 500. Both documents are summarized below.

Executive compensation-related proposals — increased use of "abstain" vote

A notable change in SSGA's 2018 voting policy relating to compensation-related proposals will be the use of "abstain" as a vote option, in addition to "in favor" and "against" votes. Although SSGA is not changing how it evaluates compensation-related proposals, it plans to vote to abstain in cases where the company's compensation practices are not fully aligned with SSGA's expectations but are not sufficiently misaligned to warrant a vote against the proposal. SSGA intends for abstain votes to delineate more clearly SSGA's position in cases of qualified support. This change may affect the outcome of a proposal. Specifically, in circumstances where SSGA votes to abstain on such a proposal, overall support will be lower than if SSGA had voted in favor of the proposal.

Compliance with local market governance codes

SSGA's updated 2018 voting policies emphasize that it expects companies in selected markets — the U.S., U.K., Australia and certain European markets — to comply with the governance codes in their respective markets. In its February 2018 letter to S&P 500 board members, the firm discussed its participation in the Investor Stewardship Group (ISG), launched by SSGA and other investors in 2017. The ISG principles are a set of core governance standards relating to shareholder rights, board governance and management incentive structures. In its letter, SSGA announced that it will apply a compliance screen, comprised of 13 voting guidelines, based on the six broad fundamental principles of good governance identified in the ISG corporate governance principles.

SSGA's screening process; "comply or explain" disclosure

SSGA's February letter emphasizes that its new ISG-based screening process is intended to help the firm proactively monitor and engage with portfolio companies on corporate governance practices and does not establish new governance-related expectations or voting policies. In accordance with ISG's "comply or explain" approach, SSGA expects companies to evaluate and disclose their level of compliance with these principles. SSGA will target for further review and engagement companies that do not meet at least three of the 13 voting guidelines to understand better the reasons for non-compliance. In cases where, in SSGA's view, a company fails to explain adequately its non-compliance with the ISG principles, SSGA will vote against the company's independent board leader. SSGA has indicated that the lack of proxy access is the most common reason for non-compliance. Other common reasons include:

- Lack of annual director elections
- Inadequate board refreshment practices
- Insufficient board independence

In light of this new SSGA approach, companies should evaluate their governance practices against the ISG principles. The company should affirmatively state where it believes it is compliant with the principles (ie, "comply"). By contrast, where there are gaps or disparities between its practices and the ISG's principles, the company should identify them and articulate why it believes the structure in place is appropriate for its particular circumstances ("explain").

SSGA's focus on board diversity

As reflected in its annual policy updates, board diversity has been an issue of focus for SSGA for several years. It believes that a well-constituted board is fundamental to a well-governed company, with board diversity a core attribute of a board's quality.

In accordance with its proxy guidelines, SSGA expects boards to be comprised of at least one female director; if the board is not, SSGA may vote against the chair of the board's nominating and/or governance committee. SSGA first launched this policy in March 2017 to apply to large market capitalization companies in three markets: the U.S., the U.K. and Australia.

SSGA identified more than 700 companies in these markets that had no women on their boards. It communicated with them through one or more avenues, including direct engagement, a letter writing campaign and voting on ballot items to address their lack of board diversity.

During 2017, SSGA ultimately voted against more than 500 companies in the three markets for failing to demonstrate progress on board diversity. In the U.S., SSGA held shares in 468 companies whose boards contained no female directors. Of those, it voted against one or more directors at 400 companies.

SSGA is one of many large institutional investors that are actively tackling the issue of board diversity. With SSGA continuing its push, and BlackRock (see our previous Georgeson Report) and other firms adopting similar policies, we believe female representation on public company boards will gain further momentum.

Please contact us with questions or feedback.

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